

STATEMENT

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For the past four years U.S. multinational corporations have been forced to consider a group of trade methods which fall under the rubric of "countertrade". Although these practices have been utilized outside the United States for many years, many U.S. corporations find them abhorrent, and continue to seek sales through more traditional arrangements. These U.S. corporations believe that the relationship between buyer and seller should be symbiotic, whereas countertrade assumes a parasitic posture in favor of the buyer.

In some instances, however, everyone pays and no one benefits. The buyer may lose out in both the short term and long term because countertrade may lead to increased costs for the buying nation.

Since the beginning of 1982, for instance, Indonesia has required that sellers commit themselves to engage in 100% countertrade for sales over \$800,000. Sellers must purchase from the Indonesians products worth at least 100% of the value of the goods sold to the Indonesians. Under the new law, sellers must purchase specific products within a limited period of time, ship them to the country or countries from which the goods sold emanate, insure that their purchases increase the flow of the products to the required destinations, and pay a penalty of 50% of any unfulfilled portions of the countertrade.

To date, the Indonesians have made only small concessions in enforcing these requirements. For example, should the seller prove a shortage of the Indonesian export product that he is required to sell, prove that it is of exceptionally poor quality, or prove that it carries too high a price, the Indonesians have agreed to review the circumstances and, perhaps, extend to the seller more time to sell the products.

Although it is understandable that the Indonesians want to improve their economy by increasing exports, the costs of the increase will ultimately be passed back to them. Companies trading with the Indonesians will either have to spend money to market the Indonesian products themselves, or pay countertrade commissions to third parties. These companies will not internalize such costs, but will simply pass them on to the Indonesians by increasing the price of their goods.

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Even if Indonesia is willing to pay this price in return for an overall increase in its exports, there may be future complications that overshadow the advantages of its countertrade policy. Specifically, competition by neighboring countries could lead to Indonesia's paying higher prices for imports without a corresponding increase in its exports.

The products which are being promoted by Indonesia's countertrade requirements are largely agricultural, for which there exists a limited worldwide market. For example, the world uses just so much pepper in any one year. If Indonesia increases its exports of pepper, these must be a reduction of pepper exports from other countries. (There is, after all, no shortage of pepper; if there were, it would not be on Indonesia's list of countertrade commodities.) Indonesia's major competitors for market share of her countertrade commodities are, logically, her neighbors, such as Vietnam, Cambodia, Thailand, and Malaysia. To save their own export markets in the face of increasing Indonesian exports, these countries might lower the prices on their commodities. As a result, either fewer companies would offer to sell to Indonesia (and become involved in countertrade obligations) or, more probably, these companies would charge Indonesia increasingly higher prices to offset the comparatively high price of Indonesian countertrade products.

Alternatively, Indonesia's neighbors might themselves institute countertrade requirements, thereby pressing foreign corporations to create expanded markets for all of their products. Given that only so much of any particular agricultural product (*e.g.* pepper) will be consumed in the world, the results will be basically stable market shares for each country, varying only slightly each year due to purely competitive pricing. This situation therefore would be almost identical to that existing before Indonesia introduced its countertrade legislation. There would be one major difference, however: foreign corporations selling goods to Indonesia will have inserted themselves between producers and traditional exporters in order to appear to be satisfying their countertrade obligations. The corporations will pay a "commission" to the traditional exporter, who will still ultimately purchase to resell the Indonesian products, and will pass the cost of the commission along by raising the sales price of the goods sold to Indonesia. The same will be true for Indonesia's neighboring competitors.

Even when the respective governments recognize what has occurred, none will be able to drop its countertrade regulations without losing all of its market share to those countries retaining a countertrade policy. Only if the entire group eliminates countertrade requirements simultaneously would a semblance of order be reached, but not without leaving deep scars in each country's economy.

This scenario is neither inevitable nor universal. It is simply one example of the problems which might occur in a given situation. It does, however, illustrate the net economic losses that developing countries might suffer by instituting countertrade regulations.